

Message Text

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S E C R E T SECTION 01 OF 04 LONDON 00754

DEFENSE FOR ISA/DSAA

E.O. 11652: GDS

TAGS: PARM, PFOR, MASS, UK, XG

SUBJ: DEPARTMENTAL STUDY OF CONVENTIONAL ARMS SUPPLY

RESTRAINTS

REF: STATE 305504

1. IN KEEPING WITH ADMONITION NOT TO APPROACH HOST GOVERNMENT, FOLLOWING RESPONSE REFLECTS EMBASSY'S ASSESSMENT OF POLITICAL AND ECONOMIC FACTORS HMG WOULD WEIGH IN ANY CONSIDERATION OF POSSIBLE FUTURE CONSTRAINT ON UK CONVENTIONAL ARMS SALES/TRANSFERS. AS REQUESTED WE HAVE KEYED REPLY TO RUBRICS OF PARA 5 REFTEL.

2. OUTLINE - EUROPEAN CONVENTIONAL ARMS TRANSFERS

INTRODUCTION

RECENT MBSEVATIONS ON UK ARMS SALES POLICY ARE

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CONTAINED IN LONDON 10869, 161628Z JUL 75, SUBJ: ARMS DEBATE IN COMMONS (U); LORDON 13914, 101133Z SEP 75, SUBJ:

SOME OBSERVATIONS ON UK ARMS SALES POLICY AND SOME STATISTICS (CNF); LONDON 16519, 291512Z OCT 75, SUBJ: CONSERVATIVE CHARGE CONCERNING UK DEFENCE SALES ORGANIZATION (U); AND LONDON 8717, 091704 JUN 75, SUBJ: FOLLOW-UP ON US CONVENTIONAL ARMS CONTROL PRESENTATION AT CCD.

AS STATED IN REFEELS, IT HAS BEEN THE POLICY OF SUCCESSIVE BRITISH GOVERNMENTS TO PROMOTE ARMS SALES WITHIN CAREFULLY CONTROLLED POLITICAL AND FINANCIAL CONSTRAINTS.

II MAGNITUDE OF CURRENT TRANSFERS

THE 1975 DEFENCE WHITE PAPER ESTIMATED 1975-76 GOVERNMENT SALES AT POUNDS 148 MILLION AND NON-GOVERNMENT SALES AT OVER POUNDS 400 MILLION. HARD STATISTICS ARE DIFFICULT TO COME BY, BUT IN THE LAST TWO YEARS, ORDERS HAVE BEEN RUNNING ABOUT POUNDS 1100 MILLION PER YEAR. AN MOD ANALYSIS OF THE PAST TWO YEARS' ORDERS INDICATES THAT THEY DIVIDE ROUGHLY INTO 50 PERCENT AEROSPACE, 35 PERCENT ARMY EQUIPMENT, AND 15 PERCENT SHIPS AND NAVAL EQUIPMENT. GEOGRAPHICALLY THE SALES HAVE BEEN DISTRIBUTED ROUGHLY 25 PERCENT TO IRAN, 50 PERCENT ELSEWHERE IN THE MIDDLE EAST, AND 25 PERCENT TO THE REST OF THE WORLD.

III INCENTIVES FOR EUROPEAN ARMS TRANSFERS TO THIRD WORLD

THE DOMINANT FACTORS BEHIND UK ARMS SALES ARE ECONOMIC ONES. THE CURRENT SHAKY STATE OF THE BRITISH ECONOMY WITH INDUSTRIAL PRODUCTION AT A LOW EBB MAKES DEFENSE SALES OF MAJOR IMPORTANCE IN HELPING TO BALANCE PAYMENTS AND PROVIDE EMPLOYMENT -- BOTH CRITICAL AREAS IN THE ECONOMY. BRITAIN'S OWN DEFENSE REQUIREMENTS OFTEN ARE MODEST IN SIZE. THUS BY PROMOTING SALES TO FOREIGN CUSTOMERS, WEAPON SYSTEMS CAN BE PRODUCED ON A SCALE THAT, IN SOME CASES, LOWERS THE UNIT PRICE OF EQUIPMENT/COMPONENTS TO A LEVEL THAT ALLOWS THE UK TO EQUIP ITS OWN FORCES WITH BRITISH SYSTEMS AT A MUCH MORE ECONOMIC, COST/EFFECTIVE, PRICE THAN OTHERWISE WOULD BE THE CASE. WERE IT NOT FOR FOREIGN SALES, THEREFORE, THE PRICE TAG ON SOME PIECES OF BRITISH EQUIPMENT WOULD BE SO HIGH THAT HMG EITHER WOULD

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HAVE TO FOREGO PURCHASING THEM FOR BRITISH FORCES, OR BUY THE EQUIPMENT FROM SOMEONE ELSE -- OFTEN THE UNITED STATES -- SPENDING FOREIGN EXCHANGE ASSETS AND EXACERBATING FURTHER THE UK'S BALANCE OF PAYMENTS PROBLEMS. FOREIGN POLICY CONSIDERATIONS TOWARDS POTENTIAL ARMS CUSTOMERS ARE OBVIOUSLY DOMINANT FACTORS BUT IN PRACTICE THEY OFTEN MAY BE TAILORED TO ACCOMMODATE THE PRAGMATIC VIEW THAT "IF A FOREIGN COUNTRY IS DETERMINED TO ACQUIRE ARMS, IT WILL BUY THEM; AND SO BRITAIN MIGHT AS WELL BE THE COUNTRY TO PROFIT FROM THE ORDER..

THE BRITISH ARE WELL AWARE OF THE INCREASING CON-
STRAINTS ON THEIR NATIONAL INDUSTRIAL CAPACITY TO PRODUCE,
AND ABOVE ALL TO DEVELOP, MAJOR WEAPONS SYSTEMS. THE EVER-
GROWING PRESSURE FROM INCREASES IN DEFENSE COSTS OF EVERY
KIND AND THE CONSTRICTION OF DEFENSE BUDGETS HAS MEANT
THAT THE SHARE OF THE DEFENSE BUDGET SPENT ON EQUIPMENT
PROCUREMENT HAS STEADILY FALLEN. THIS SQUEEZE ON CAPITAL

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EQUIPMENT EXPENDITURE PUTS EMPHASIS ON, AND ADDS IMPORT-
ANCE TO, THE ROLE OF ARMS SALES AS AN ELEMENT IN BRITAIN'S
ATTEMPT TO PRESERVE ITS DEFENSE INDUSTRIAL BASE. BRITISH
DEFENSE INDUSTRY NOW STANDS AT A CRITICAL JUNCTURE SINCE
STRONG ECONOMIC PRESSURES FOR FURTHER CUTBACKS IN DEFENSE
SPENDING WILL HAVE MAJOR IMPACT ON BOTH PRODUCTION CAPACI-
TY AS WELL AS EMPLOYMENT. IN THE SHORT-TERM AT LEAST IT

WILL RESULT IN INCREASED EMPHASIS ON EXPORT MARKETS TO SUSTAIN BRITAIN'S DEFENSE INDUSTRIAL BASE.

THE UK ECONOMY IS CURRENTLY AT THE BOTTOM OF THE RECESSIONARY CYCLE. THROUUGHOUT THE PERIOD OF RECESSION, THE CHANCELLOR OF THE EXCHEQUER HAS REPEATEDLY POINTED TO THE EXPECTED UPTURN IN WORLD TRADE AS BEING ONE OF THE MOST IMPORTANT ELEMENTS IMPACTING ON THE ECONOMIC RECOVERY OF BRITAIN. TAKEN IN THIS CONTEXT, THE EXPORT OF MILITARY EQUIPMENT IS UNDOUBTEDLY A CONTRIBUTORY FACTOR IN

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THE RECOVERY PROCESS. WITHOUT PRECISE DATA ON THE HISTORIC LEVEL OF ARMS SALES AS A PERCENTAGE OF TOTAL EXPORTS, IT IS DIFFICULT TO ASCRIBE PRECISE REACTION, IN AN ECONOMIC SENSE, TO PROPOSALS FOR LIMITATION OF SUCH TRANSFERS.

THIS MUCH SAID. IF WE LOOK AT THE CURRENT ECONOMIC SITUATION AND THE ANTICIPATION OF AN EXPORT LED RECOVERY, IT SEEMS HIGHLY IMPROBABLE THAT THE UK WOULD BE ANXIOUS TO ENTER INTO ANY AGREEMENT WHICH WOULD RESTRICT THE POTENTIAL FOR EXPANSION OF EXPORTS, ESPECIALLY IN THE SHORT TERM. RECOGNIZING THAT THE ELASTICITY OF DEMAND FOR THESE TYPES OF GOODS IS MUCH LOWER THAN THAT FOR NON-MILITARY GOODS, WE DO NOT WISH TO IMPLY THAT THE UK GOVERNMENT IS ANTICIPATING A SHARE OF INCREASE IN ARMS EXPORTS AS WORLD TRADE EXPANDS.

CURRENTLY MILITARY EQUIPMENT EXPORTS COMPRISE ROUGHLY 2 TO 1 PERCENT (ABOUT \$1 BILLION PER YEAR) OF TOTAL EXPORTS, THIS LEVEL OF SALES COULD BE ROUGHLY ASSOCIATED WITH 20,000 JOBS. GIVEN THE CURRENT UNEMPLOYMENT LEVEL OF 1.2 MILLION, IT SEEMS UNLIKELY THAT THE GOVERNMENT WOULD BE DISPOSED TO TAKE ANY ACTION WHICH WOULD ADD TO THIS NUMBER. ANY REDUCTION IN THE TRANSFER OF ARMS AND THE IMPLIED DECREASE IN PRODUCTION MUST BE LOOKED AT IN TERMS OF ITS IMPACT ON THE ECONOMY AS A WHOLE. IN A RECESSIONARY PERIOD WITH HIGH LEVELS OF UNEMPLOYMENT, VOLUNTARY REDUCTION IS MUCH MORE DIFFICULT IN AN ECONOMIC CONTEXT.

IV CURRENT PUBLIC AND OFFICIAL ATTITUDES

FORTUNATELY FOR THE GOVERNMENT, THE QUALITY PRESS GENERALLY REPORT BRITISH ARMS SALES TO THE THIRD WORLD IN A FACTUAL MANNER, PLAYING UP THE NUMBER OF JOBS INVOLVED FOR DEFENSE CONTRACTORS AND THE ECONOMIC BENEFITS TO BRITAIN OF DEFENSE SALES ORDERS. THERE ARE, OF COURSE, SOME NEWSPAPERS WHICH TEND TO SENSATIONALIZE 'ARMS DEALS', BUT SINCE THEIR STYLE IS SENSATIONALIST IN ALMOST EVERYTHING THEY REPORT SUCH SENSATIONALISM WHILE TOLERATED IS OFTEN IGNORED BY MOST BRITONS. IN GENERAL, PUBLIC ATTITUDE REFLECTS THE OFFICIAL ATTITUDE THAT "WHAT'S GOOD FOR BRITAIN'S DEFENSE INDUSTRY IS GOOD FOR THE COUNTRY". ACCEPTANCE OF THIS KIND OF SELF-SERVING PRAGMATISM IS NOT

TO SAY THAT BRITISH POLICY DOES NOT ALSO EMBRACE SELF-
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DENIAL. FOR EXAMPLE, AS PART OF THEIR COURTSHIP WITH BLACK AFRICA, THE BRITISH WILL NOT SELL MILITARY EQUIPMENT DIRECTLY TO SOUTH AFRICA AND RHODESIA. THE MORAL VIEWS OF THE LABOUR GOVERNMENT ALSO PRECLUDE SALES TO RIGHT-WING DICTATORSHIPS SUCH AS CHILE, ALTHOUGH IT IS HONORING EXISTING CONTRACTS. AS A GENERAL RULE, BRITISH POLICY FORBIDS THE SALE OF WEAPONS TO COUNTRIES ENGAGED IN HOSTILITIES UNLESS, OF COURSE, BRITAIN SUPPORTS STRONGLY ONE SIDE OVER THE OTHER IN THE DISPUTE.

POLITICAL CRITICISM OF ARMS SALES COMES PRINCIPALLY FROM TWO DIRECTIONS. THERE IS, FOR EXAMPLE, AN ORGANIZED CAMPAIGN RUN BY A GROUP KNOWN AS THE "CAMPAIGN AGAINST THE ARMS TRADE". MADE UP OF VARIOUS PACIFIST BODIES, ITS ATTACK ON SALES FLOWS MAINLY FROM OBJECTIONS "ON MORAL GROUNDS". A FEW PARLIAMENNARIANS ARE MEMBERS, AND A COUPLE OF MPS ARE PRMMINENT. ALSO' ON THE MODERATE LEFT IS THE FABIAN SOCIETY, ARD SOMEWHAT FURTHER TO THE LEFT, THE TRIBUNE GROUP (WITHIN THE LABOUR PARTY) WHICH TEND TO BE OPPOSED TO ARMS SALES MORE FROM THEIR DESIRE TO SEE DIS-ARMAMENT -- "BEATING SWORDS INTO PLOUGHSHARES" -- THAN FROM "MORAL OR "RELIGIOUS, GROUNDS. THE LIBERAL PARTY HAS SIMILAR PROBLEMS. AT THE PARTY ASSEMBLY IN SCARBOROUGH LAST SEPTEMBER, DELEGATES HEATEDLY DEBATED A MOTION SUPPORTED PRIMARILY BY YOUNG LIBERALS CALLING ON THE GOVERNMENT TO ELIMINATE ALL ARMS SALES. ON THE OTHER HAND, THERE ARE THOSE -- PARTICULARLY IN DEFERSE INDUSTRY, THE MILITARY, AND THE CONSERVATIVE PARTY -- WHO ARGUE THAT

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BRITAIN SHOULD BE MORE ACTIVE IN SEEKING EXPORT ORDERS
FOR ARMS SALES.

ON BALANCE, THE ISSUE OF ARMS SALES IS NOT ESPECI-
ALLY SIGNIFICANT POLITICALLY AND WE HAVE NO EVIDENCE THAT
THIS SITUATION IS LIKELY TO CHANGE IN THE FORESEEABLE
FUTURE. BRITISH PUBLIC OPINION ON THIS MATTER TENDS TO BE
QUIESCENT. BUT IT CAN BE AROUSED WHEN SPECIFIC ARMS SALES
IMPINGE, FOR EXAMPLE, ON MORAL ISSUES OR WHEN SALES ARE
MADE TO COUNTRIES ACTUALLY AT WAR.

AT THE GOVERNMENT LEVEL, WHITEHALL RECOGNIZES FULLY
THAT THE ECONOMIC FACTORS AND CONSIDERATIONS USED TO
JUSTIFY ARMS SALES TO THE PUBLIC ARE, IN FACT, SECONDARY
CONSIDERATIONS FROM A POLICY VIEWPOINT. THE BRITISH
GOVERNMENT CONTROLS ARMS SALES POLICY PRECISELY BECAUSE
IT RECOGNIZES THE IMPORTANT POLITICAL SIGNIFICANCE THAT
THE SALE OF ARMS OFTEN ASSUMES. THE FCO AND MOD ACCEPT

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THAT ARMS SALES ARE AN IMPORTANT TOOL OF FOREIGN POLICY
AND DIPLOMACY AS WELL AS OF NATIONAL ECONOMIC BENEFIT.

V INTRA-EUROPEAN CONCERNS

THE BRITISH ARE COMPETING WITH THE GERMAN AND
FRENCH DEFENSE INDUSTRIES AND TO SOME EXTENT THE ITALIANS,
FOR MARKETS WITHIN EUROPE AND WITH THE FRENCH FOR THIRD
WORLD MARKETS. COMPETITION WITH FRANCE IS PARTICULARLY
STRONG IN THE MIDDLE EAST WHERE AT PRESENT THE UK IS TRY-
ING TO INCREASE ITS 10-12 PERCENT SHARE OF THE MARKET.
FRANCE IS THE UK'S GREATEST EUROPEAN COMPETITOR IN THE
INTERNATIONAL ARMS MARKET AND AFTER THE US AND USSR,
FRANCE RANKS NEXT IN THE LEVEL OF ARMS EXPORTS. THE UK
HAS PLAYED A LEADING ROLE IN EUROPE IN PROMOTING CO-PRO-

DUCTION AGREEMENTS PARTICULARLY IN THE AEROSPACE FIELD. AS PRODUCTION COSTS SKY-ROCKET, WE SHOULD SEE MORE SUCH AGREEMENTS SPECIFICALLY IN TANK, ANTI-TANK, AND SHIP-BOARD SYSTEMS. CERTAINLY, THE PRESENT BRITISH SECRETARY OF STATE FOR DEFENCE, ROY MASON, HAS BEEN ONE OF THE STRONGEST SUPPORTERS OF EUROGROUP'S AIM TO CREATE GREATER EUROPEAN DEFENSE PRODUCTION INTEGRATION AND EFFICIENCY THROUGH BETTER WEAPONS DEVELOPMENT AND PRODUCTION PLANNING. THE STRONG BRITISH SUPPORT FOR THE "TWO-WAY STREET" CONCEPT -- WHEREBY THE EUROPEANS (PARTICULARLY THE BRITISH) HOPE TO INCREASE THE LEVEL OF DEFENSE SALES TO THE US -- IS EVIDENCED BY THE RECENT HIGH LEVEL DIALOGUE IN NATO ON THE WHOLE RANGE OF ISSUES FLOWING FROM THE ATTEMPT TO BRING GREATER RATIONALIZATION AND STANDARDIZATION INTO ALLIANCE PROCUREMENT PRACTICES. THE 25 SEPTEMBER 1975 MOU SIGNED BY MASON AND SCHLESINGER REFLECTS, IN THE BRITISH VIEW, THEIR ATTITUDE OF SUPPORT FOR STANDARDIZATION AND FUTURE COOPERATION WITH THE US IN R&D, PRODUCTION AND PROCUREMENT OF DEFENSE EQUIPMENT TO GET THE BEST WEAPON SYSTEMS AT THE BEST PRICES WITHIN NATO. THE BRITISH ARE AWARE, OF COURSE, THAT GREATER BILATERAL AND MULTILATERAL ARMS PRODUCTION COOPERATION WILL RECESSITATE CREATION OF AGREED UPON GUIDELINES AND PRINCIPLES COVERING ARMS SALES TO THIRD WORLD COUNTRIES. AS CLOSER ARMS COLLABORATION EVOLVES, THE BRITISH ACCEPT THAT DEVELOPMENT OF A "COMMON ARMS EXPORT POLICY" BETWEEN THE PARTICIPATING COUNTRIES WILL BECOME AN URGENT MATTER NOT EASILY RESOLVED.

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VI ALLIED RECEPTIVITY TO POSSIBLE LIMITATIONS

A CALL FOR AN INTERNATIONAL CONFERENCE "TO DISCUSS GUIDELINES" FOR CONTROL OVER ARMS SALES WOULD PROBABLY BE SUPPORTED BY HMG IN KEEPING WITH BRITAIN'S PLEDGE TO PLAY A FULL PART IN INTERNATIONAL EFFORTS TO REDUCE THE RISK

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OF ARMED CONFLICT. HOWEVER, INITIALLY AT LEAST HMG'S SUPPORT WOULD BE AGAINST AN ATTITIONAL BACKDROP WHICH WOULD TEND TO VIEW ANY SUGGESTIONS BY THE US' ANY OTHER NATION, OR SUPRA-NATIONAL BODY TO LIMIT BRITISH ARMS SALES AS AN INFRINGEMENT ON ITS SOVEREIGN RIGHT TO SELL WHATEVER, TO WHOMEVER. WHENEVER IT PLEASES. THE "REALISTS" HAVE ACCEPTED THAT IN THE ARMS EXPORT BUSINESS A DEGREE OF HYPOCRISY IS INEVITABLE; THE CYNICS WOULD ARGUE THAT SUCH A CONFERENCE STANDS LITTLE CHANCE OF EVER COMING UP WITH ENFORCEABLE LIMITATIONS AND' THEREFORE, WOULD POSE NO REAL THREAT TO THE BRITISH ARMS INDUSTRY; THE IDEALISTS WOULD GIVE IT SUPPOPT AND WISH FOR SUCCESS.

BRITISH OFFICIALS ARE SKEPTICAL ABOUT THE PROSPECTS FOR CONVENTIONAL ARMS CONTROL INITIATIVES IN INTERNATIONAL FORA, PARTICULARLY IN TERMS OF THE US FOREIGN ASSISTANCE ACT WHICH SEEMS TO IMPLY THAT TRANSFERS TO DEVELOPING

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COUNTRIES ARE MOST IN NEED OF CONTROL. UK MINISTERS HAVE SPOKEN IN SUPPORT OF CONVENTIONAL ARMS LIMITATIONS IN VERY BROAD TERMS BUT THE UK WOULD BE MOST CAUTIOUS ABOUT ENTERING INTO ANY INTERNATIONAL DISCUSSIONS OF THE ISSUE UNLESS ALL OTHER MAJOR EXPORTERS WERE INVOLVED -- ESPECIALLY FRANCE.

VII POSSIBLE FORA FOR DISCUSSIONS

AS NOTED ABOVE. MAJOR ARMS SUPPLY RESTRAINTS WOULD

NOT BE WELCOMED BY THE BRITISH. THE BEST FORUM FROM THEIR VIEWPOINT IS THUS THE ONE WHICH OFFERS THE LEAST LIKELIHOOD OF TOTAL SUCCESS -- AND THAT MEANS A CONFERENCE WHICH INCLUDES WORLD SUPPLIERS AS WELL AS RECIPIENTS. CERTAINLY WE BELIEVE THAT HMG WOULD WISH TO EXPLORE BILATERALLY WITH US THE RAMIFICATIONS OF A WORLD-WIDE CONFERENCE. QUITE LIKELY ALSO, THE BRITISH WOULD WISH TO SEEK, BILATERALLY OR MULTILATERALLY, THE VIEWS OF EUROGROUP MEMBERS. IF A SUITABLE FRAMEWORK IS AGREED UPON, THERE CAN BE LITTLE DOUBT THAT HMG WOULD PLAY A "CONSTRUCTIVE ROLE": TO THE END THAT NO COMPETITOR COUNTRY GAINED MARKETS AND COMMERCIAL ADVANTAGE AT THE EXPENSE OF BRITAIN.

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